MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2015 / 2016 SESSION

DII5018 – INTRODUCTION TO INVESTMENT

(For Diploma Students Only)

1 JUNE 2016
2.30 p.m – 4.30 p.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **13** pages with 2 sections.
2. Answer **ALL** questions.
3. Answers for Section A should be shaded on the OMR form provided.
4. For Section B, write your answers in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS (each question carries 1 mark).

1. Which of the following is **NOT** an investment as defined in the text?

   A. A certificate of deposit issued by a bank.
   B. A new automobile.
   C. A Malaysia Saving Bond.
   D. A mutual fund held in a retirement account.

2. Equity represents funds invested in exchange for:

   A. dividend income and the repayment of the loan principal.
   B. dividend income and an ownership interest in the firm.
   C. interest income and a partial ownership interest in the firm.
   D. interest income and the repayment of the loan principal.

3. The individuals are generally:

   A. not involved in the financial markets.
   B. the owner of the financial market.
   C. a supplier of funds to the financial market.
   D. a demander of funds in the financial market.

4. Which of the following are **TRUE** concerning institutional investors?

   I. Institutional investors invest large sums of money.
   II. Kumpulan Wang Simpanan Pekerja (KWSP) and CIMB bank are all institutional investors.
   III. Trade small volumes of securities.
   IV. Institutional investors are individuals who invest indirectly through financial institutions.

   A. I and II only.
   B. I, II and IV only.
   C. II, III and IV only.
   D. I, II, III and IV.

5. Which of the following steps refers to the first step in investing?

   A. Evaluating investments.
   B. Adopting an investment plan.
   C. Establishing investment goals.
   D. Meeting investment prerequisites.

Continued.....

6. Which of the following are functions of the secondary market?

I. Provide liquidity for current stockholders.
II. Equate the demand and supply of securities.
III. Provide a market for the sale of new stock by companies that are already public.
IV. Provide continuous pricing of securities.

A. I and II only.
B. II and IV only.
C. I and III only.
D. I, II and IV only.

7. Assume the foreign exchange rate for the ringgit was US $1.00 = RM3.70 last month. This month, the exchange rate is US $1.00 = RM4.00. This information indicates that over the past month, the:

A. US dollar remained unchanged relative to the Ringgit.
B. US dollar appreciated relative to all foreign currencies.
C. Ringgit depreciated relative to the dollar.
D. Ringgit appreciated relative to the dollar.

8. Alex Chong bought 200 shares of stock at a price of RM1.00 a share. He used his 70% margin account to make the purchase. Alex Chong sold his stock after a year for RM1.20 a share. Ignoring margin interest and trading costs, what is Alex Chong's return on investor's equity for this investment?

A. 67%
B. 29%
C. 14%
D. 10%

9. Fara purchased 100 shares of stock at a price of RM3.20 a share. She utilised her 80% margin account to make the purchase. What is Fara's initial equity in this investment?

A. -RM64
B. RM64
C. RM256
D. RM320

Continued.....

10. Which of the following statements about short selling is (are) **TRUE**?

I. Short selling requires an initial margin deposit.
II. Short sellers begin a transaction with a sale and end it with a purchase.
III. Short sellers profit when the stock prices rises.
IV. Short selling can be a risky strategy.

A. IV only.
B. I and II only.
C. I, II and IV only.
D. I, II, III and IV.

11. The maximum rate of return that can be earned for a given rate of interest occurs when interest is compounded:

A. annually.
B. monthly.
C. daily.
D. continuously.

12. An ordinary annuity has cash flows that occurs at the _____ of each time period and is _____ in amount.

A. end; constant
B. end; variable
C. beginning; constant
D. beginning; variable

13. Which one of the following will lower required rates of return?

A. Higher rates of inflation.
B. Higher risk premiums.
C. Lower rates of inflation.
D. Lower dividend yields.

Continued.....

14. Which of the following is (are) issue characteristics of an investment?

I. Type of investment such as stocks or bonds.
II. State of the economy.
III. Coupon or dividend payments.
IV. Time to maturity.

A. I, III and IV only.
B. I, II, III and IV.
C. I and II only.
D. III only.

15. Systematic risks:

A. can be eliminated by investing in a variety of economic sectors.
B. are forces that affect all investment categories.
C. result from random firm-specific events.
D. are unique to certain investment vehicles.

16. To obtain the maximum reduction in risk, an investor should combine assets that:

A. are negatively correlated.
B. are uncorrelated.
C. are positively correlated.
D. have a correlation coefficient of positive one.

17. The stock of ABC, Inc. has a beta of 1.10. The market rate of return is expected to increase in value by 5%. ABC stock should:

A. increase in value by 0.5%.
B. increase in value by 5.5%.
C. decrease in value by 0.5%.
D. decrease in value by 5.5%.

18. Which of the following factors comprise the CAPM?

I. Dividend yield.
II. Risk-free rate of return.
III. The expected rate of return on the market.
IV. Risk premium for the firm.

A. I and III only.
B. II and IV only.
C. III and IV only.
D. II, III and IV only.

Continued.....

19. Below statements are **TRUE** about common stocks, **EXCEPT** for:

A. stocks allow investors to tailor investments to meet individual needs and preferences.
B. stocks may provide a steady stream of current income through dividends.
C. stocks allow its holder to buy and sell it at any price, anywhere and anytime.
D. stocks may increase in value over time through capital gains.

20. The paid dividend for Milly Berhad is RM20 and the current price is RM50. Compute its dividend yield.

A. 25%
B. 40%
C. 45%
D. 250%

21. In public corporations, the claim of fundamental ownership is called _____.

A. common stock
B. fundamental stock
C. corporate stock
D. claimed stock

22. "Investors buy high-quality growth stocks, blue chip stocks, mid-cap stocks, tech stocks and cyclical stocks". This term refers to what type of stock investment strategy?

A. Speculation and Short-Term Trading.
B. Aggressive Stock Management.
C. Quality Long-Term Growth.
D. Buy-and-Hold.

23. For the year of 2014, Cerana Berhad's total sales is RM900,000, accounts receivables is RM95,000, and their cost of goods sold is RM240,000. What is the accounts receivables turnover rate?

A. 6.95 times.
B. 9.47 times.
C. 10.00 times.
D. 12.00 times.

Continued.....

24. Which of the following would **NOT** improve the current ratio?

A. Borrow short term to finance additional fixed assets.
B. Issue long-term debt to buy inventory.
C. Sell common stock to reduce current liabilities.
D. Sell fixed assets to reduce accounts payable.

25. Which group of ratios measure how effectively the firm is using its assets?

A. Liquidity ratios.
B. Debt ratios.
C. Profitability ratios.
D. Activity ratios.

26. Growth Cycle reflects the vitality of an industry or a company over time. Rank its cycle below according to the stages. Choose your **BEST** answer.

A. Initial Development, Mature Growth, Rapid Expansion, Stability or Decline.
B. Initial Development, Rapid Expansion, Mature Growth, Stability or Decline.
C. Stability or Decline, Initial Development, Rapid Expansion, Mature Growth.
D. Initial Development, Stability or Decline, Rapid Expansion, Mature Growth.

27. _____ risk is the chance that the issuer of the bond will default on _____ and/or _____ payments.

A. Liquidity; interest; principal
B. Business/Financial; interest; principal
C. Purchasing power; dividend; principal
D. Call; interest; principal

28. Interest rates and bond prices _____.

A. move in the same direction
B. move in opposite directions
C. sometimes move in the same direction, sometimes in opposite directions
D. have no relationship with each other (i.e., they are independent)

29. An example of municipal bonds is _____.

A. revenue bond
B. mortgage
C. junk bond
D. swap

Continued.....

30. High-grade investment bonds are rated by S&P as _____.

A. Aaa
B. AAA
C. Aa
D. A

31. _____ bonds are not registered with the SEC and are issued and traded outside of the U.S.

A. Yankee
B. Eurodollar
C. Yield
D. Treasury

32. Statements given below are **CORRECT** regarding Liquidity Preference Theory, **EXCEPT** for:

A. shape of yield curve is based upon the difference in risk between short-term and long-term bonds.
B. if investors view long-term bonds have higher risks than short-term bonds, then rates on long-term bonds must be higher than rates on short-term bonds.
C. short term bonds are more liquid than long terms bonds.
D. supply and demand for funds in these distinct segments determine the level of short- and long-term interest rates.

33. Which of the following criteria applies to bond duration?

I. Bonds with lower coupon rates have longer durations.
II. Bonds with shorter maturities have shorter durations.
III. Bonds with lower YTM lead to longer durations.
IV. Bonds with higher coupon rates have longer durations.

A. I, II and III only.
B. I, II and IV only.
C. I and II only.
D. I, II, III and IV.

Continued.....

34. Jeremy, an investor, intends to invest in bond. His main focus is high current income, and he also chooses bonds with high credit quality. What type of strategy does Jeremy use in his bond investment?

A. Buy-and-hold strategy.
B. Aggressive Approach.
C. Bond ladder strategy.
D. Conservative Approach.

35. Yield spreads are known as the differences in interest rates between the various market sectors. Among the factors that lead to these spreads are:

I. the higher the credit rating, the higher the interest rate.
II. discount bonds yield less than premium bonds.
III. freely callable bonds yield higher than non-callable bonds.
IV. bonds with longer maturities generally yield less than shorter maturities.

A. I, II and IV only.
B. I, II and III only.
C. II, III and IV only.
D. II and III only.

36. Manana Sdn. Bhd.'s bond is currently trading at RM1,350. Compute its yield-to-call of a 25-year, 9% bond but can be called in 6 years at a call price of RM1,050?

A. 1.25%
B. 3.33%
C. 6.18%
D. 6.50%

37. Mutual funds had been a famous and chosen type of investment, since it first started in 1924. Below are some of the purposes why investors chose mutual funds, **EXCEPT** for:

A. portfolio diversification.
B. professional management.
C. substantial transaction costs.
D. ability to invest small amounts.

Continued.....

38. Investors who invest in mutual funds, have their own objectives. Choose the correct objectives from below statements.

I. Accumulation of wealth.
II. Storehouse of value.
III. To avoid paying tax.
IV. To directly invest in the market.

A. I, II and IV only.
B. I, II and III only.
C. II, III and IV only.
D. I and II only.

39. Typical services offered by mutual funds include:

I. automatic investing from a payroll withholding plan.
II. automatic reinvestment of dividends.
III. systematic withdrawal plans.
IV. automatic transfers from one fund type to another when market conditions change.

A. I and III only.
B. II and IV only.
C. I, II, and III only.
D. I, II, III, and IV.

40. Investors are generally well advised to avoid mutual funds with:

A. highly rated fund managers.
B. low fees and high tax efficiency.
C. consistently poor historical performance.
D. good performance in both up and down markets.

[TOTAL 40 MARKS]

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SECTION B: STRUCTURED QUESTIONS

QUESTION 1

You are considering to invest in one of the companies using the information given below.

Company	Apple Corp.		Durian Corp.	
Date	1 January 15 RM	31 December 15 RM	1 January 15 RM	31 December 15 RM
Price	3.50	4.00	7.35	7.65
Company	Orange Corp.		Oppe Corp.	
Price	4.45	4.85	5.65	6.05
Company	Ganki Corp.		You2 Corp.	
Price	3.35	3.85	6.65	6.45

Company	Dividend (RM)
Apple Corp.	0.15
Durian Corp.	0.30
Orange Corp.	0.30
Oppe Corp.	0.45
Ganki Corp.	0.10
You2 Corp.	0.25

a) Which company shows capital loss?

(1 mark)

b) What is the income for Ganki Corp.?

(1 mark)

c) Calculate the total return for the companies.

(6 marks)

d) Calculate the Holding Period Return (HPR) for the companies.

(6 marks)

e) Which company would you choose to invest?

(1 mark)

(Total = 15 marks)

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QUESTION 2

Portfolio 1

Asset	Asset Beta	Weights (%)
M	0.8	35
N	1.2	25
O	0.9	10
P	1.05	30
Total		100

Portfolio 2

Asset	Asset Beta	Weights (%)
M	0.8	10
N	1.2	35
O	0.9	10
P	1.05	45
Total		100

Shawn Qing is evaluating 2 possible portfolios as shown above (Portfolio 1 and 2).

a) Calculate the betas for portfolio 1 and 2.

(6 marks)

b) Which portfolio is more risky and why?

(2 marks)

c) If given risk-free rate is 3.1 percent and the market return is 8 percent, calculate the required return for each portfolio using the CAPM.

(6 marks)

d) Which portfolio would you invest based on (c)?

(1 mark)

(Total = 15 marks)

Continued.....

QUESTION 3

a) For each of the following scenario, calculate how much each share is selling after split and how many shares would investors own after the split.

i. Currently you own 200 shares, which is priced at RM20 per share. The stock recently underwent a stock split of 3 for 2.

(2 marks)

ii. Rita owns 300 shares of Mimar Bhd common stock, valued at RM15 a share. Mimar Bhd has declared a 2 for 1 stock split effective immediately.

(2 marks)

b) Following are the financial information for Jeferson Bhd.

Net profit after taxes	RM210,000
Total sales	RM350,000
Total common stock dividend paid	RM 25,000
Total assets	RM150,000
Total stockholders' equity	RM 380,000
Number of common stock outstanding	40,000 units
Market price of common stock	RM15.00 per share

Based on the data given above, compute the following:

i. Earning per share (EPS).

(2 marks)

ii. P/E ratio.

(2 marks)

iii. PEG ratios, given that the company's earnings have grown at an annual rate of 6.2 percent.

(2 marks)

iv. Book value per share.

(2 marks)

v. Net profit margin

(2 marks)

vi. If an investor requires a net profit margin of 55 percent, should the investor invest in Jeferson Bhd.?

(1 mark)

(Total = 15 marks)

Continued.....

QUESTION 4

a) There are **SIX (6)** types of management company under mutual funds, in which two of them are Open-End Investment Companies and Closed-End Investment Companies. Briefly differentiate these two companies in terms of their:
   i. trading method,
   ii. number of shares issued and
   iii. the issuance of market price.

(6 marks)

b) In mutual funds, there are various types of fund loads, fees, and charges. Differentiate these types of fees by providing its definitions:
   i. Load Fund,
   ii. Low-load Fund,
   iii. No-load Fund, and
   iv. Back-end load.

(6 marks)

c) List down any **SIX (6)** types of mutual funds available in the market.

(3 marks)
(Total = 15 marks)

[TOTAL 60 MARKS]

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